

# Social Concerns

## Welfare Reform's Next Five Years

The next phase of welfare reform must make work mandatory and make it pay. This approach continues to prove successful across the country.

Jay Hein

► This essay is second in a four-part series considering what may be the most enduring, if overlooked, success of 1990s welfare reform: the reinvigoration of civil society. The first phase of welfare reform replaced entitlements with empowerment. The next phase must combine the efforts of private charities and public assistance to reweave society's safety net with stronger community ties.

**Forthcoming essays:**

Summer 2003—"Rethinking Charity"

Fall 2003—"Family Matters"

**W**hen forty-six-year-old Shahnaaz Reed was hired as a front-desk clerk at the Indianapolis Athletic Club for \$9.50 an hour, she believed that her on-again, off-again days of welfare dependency were over. But after three years on the job, Reed was laid off in December 2000 and, when her unemployment benefits ran out soon thereafter, she found herself counted among Indiana's welfare caseload.

The story of Shahnaaz Reed is in many ways the story of welfare reform in America. Five years ago, the poor were leaving welfare benefits in droves for a better life outside the system. Today, welfare rolls are slowly climbing back up. This pattern has caused some to claim that welfare reform's success was a false positive, more a product of a good economy than new policies or work-favoring services. Others counter that Reed's story reveals the need for even stiffer work provisions, combined with measures intended to keep millions of people like her in the private workforce for the long haul.

The debate over these questions effectively put welfare reform on hold last year. The landmark welfare legislation adopted in 1996 operated under a five-year sunset provision. That five-year deadline was

reached last October amid wide consensus that the new system was vastly superior to the old one. All major research reported that whatever should be up (work participation, for instance) was up, and whatever should be down (such as poverty) was down. So it wasn't the direction of the first set of reforms that caused the trepidation, rather it was a question of which path should be taken to continue its success. Congress agreed to extend the provisions and funding levels of the 1996 act to June 30, 2003. During this time, the two sides have been arguing both ends of an ages' old debate—whether the poor are better served by coddling or prodding.

### The Utility of Work

This debate recently took shape in Minnesota, where newly elected governor Tim Pawlenty remarked, "There is nothing compassionate about paying able-bodied, able-minded people to stay home and not work." The governor followed his rhetoric with a new state welfare reform plan that amplifies the state's work focus. Opponents charged that Minnesota's reforms have been among the nations' most celebrated, so "Why change?" Governor Pawlenty retorted that too many people in the system escape work through the law's loopholes. "I have one definition of work," the governor told the *Minneapolis Star Tribune*. "You get a job. And you get a paycheck."

Those who advocate softer work-participation requirements often defend what is becoming known as the "fallacy of the multi-barriered family." Proponents of this view believe that many welfare recipients should be separated from others because they need more specialized care. Although this may be true of a slight minority of recipients, two of the most often cited characteristics of multi-barriered families—alcohol and drug abuse, and domestic violence—are found in roughly the same proportions across the general workforce. For example, studies show that 85 percent of heavy drinkers are employed, and violence is stated as the reason for divorce in 22 percent of all U.S. middle-class marriage breakups.

The point here is not to make light of these personal difficulties, but rather to underscore the point that

segregating welfare recipients for these reasons perpetuates the myth that substance abuse and family violence are concerns only for the poor. The poor are by no means alone in facing such barriers, and we must teach them how to navigate their difficulties as other successful people have learned to do. (Later in this essay I will discuss some ways to do this.) The last thing we should do is weaken the work requirements in the law, because work has proven to be an effective antidote helping people recover from their problems.

What, then, about those loopholes Governor Pawlenty mentioned? After all, wasn't one of the signature policies of the 1996 reform its "work first" provisions? Well, yes and no. Yes, the law did obligate states to place increasing percentages of their caseload into work activities. And the numbers sounded impressive: 25 percent of the caseload was required to work in 1997, and the number increased by annual increments up to 50 percent in 2002. The number of hours required for work activities also increased over time, from twenty hours per week in 1997 to thirty hours by 2000 and thereafter.

However, the reform law included a less well-known provision that effectively tilted the system back in the direction of the old one. Known as the caseload reduction credit, this proviso was created to reward (or at least not penalize) states for reducing their welfare caseload while also preparing welfare recipients for work. It worked this way: for every percentage point by which a state reduced its welfare rolls below 1995 levels, that state received a 1 percent reduction in the number of cases that it was required to assign to work.

Federal data reports that thirty-one states did not have to place a single welfare recipient in a work activity because their caseload reduction credit exceeded their work-participation requirements. Eleven additional states had required participation rates of less than 10 percent. Many states simply used the credit as a vehicle to favor an education versus work approach. Others, however, complied willingly. Wisconsin's welfare declines were enough to warrant a work participation rate of zero, yet the state boasted the nation's highest percentage of cases placed in work activities.

President Bush's welfare reauthorization plan seeks to eliminate the caseload reduction credit as a means to prompt all states to serve their caseload more effectively. Some states oppose the move, claiming that it amounts to an unfunded mandate. But the president has also recommended funding equal to the 1996 block grant. With many fewer people on the welfare rolls today than six years ago, and the same amount of funding, states have more funds per capita with which to meet the law's work provisions.

Of course, the best way to measure the effects of work requirements is by gauging improvements in the program participants' quality of life. New research has found that single mothers leaving welfare in pro-work states are more likely to be employed and to have higher wages than those in non-work states. Moreover, states with the strictest work provisions have not experienced the increase in welfare cases that non-work states did during the recent economic slump.

No surprise there. A tour through some of the lagging states shows that their programs are much more the way things used to be than the way things are supposed to be. Clients in the non-work states are given a cursory front-end appointment in the welfare office and then effectively left alone to sit idle while their lifetime welfare limit dwindles away. When the benefits expire, that person is still woefully unprepared to manage life outside the system. Those who are actively working or preparing to work are much better prepared and motivated to navigate the real world. Therefore, making work requirements real is the compassionate next step in welfare reform.

### The Role of Government

Requiring the poor to work has not been the only reason behind the success of the U.S. welfare reform experiment. If work-focused welfare reform is the "push" that helps the able-bodied to seek work, work incentives are the "pull" that keeps them there. Ron Haskins, widely credited as the chief thinker behind the 1996 act, has reflected on this push-pull dynamic in a paper entitled "Giving Is Not Enough." According to Dr. Haskins, work-based welfare—combining strict work requirements with generous

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Increased work supports come with a price tag, of course. In 1996, per capita spending on welfare-to-work participants was \$7,000. Today, that number has increased to \$16,000. The primary driver of the per-person expenses is the broad array of services that support work, such as child care, transportation assistance, and health-care coverage. This trend reflects the bipartisan belief that those who work should be rewarded. At a recent event co-sponsored by the Hudson Institute, former Indianapolis mayor Stephen Goldsmith said, “The post-welfare reform world has seen a sea change. There is broad consensus that a work-based benefit system is where we want to be.”

The earned-income tax credit (EITC) exemplifies the “work-based benefit system.” Ronald Reagan referred to the EITC as “the best anti-poverty, the best pro-family, the best job-creation measure to come out of Congress.” Based on a sliding scale, the EITC augments earnings of poor workers through a negative income tax, a concept originated by Milton Friedman in his book *Capitalism and Freedom* (1962). The EITC has now become the largest federal aid program targeting the working poor. According to the Council of Economic Advisors, federal EITC expenditures in 1999 were \$31 billion, nearly the combined total of the main cash welfare program (TANF) and the Food Stamp program.

The return on that investment has been more workers and less poverty. A study by the Urban Institute found that the EITC has had unambiguously positive effects on labor force participation. Other studies report that the EITC helps lift nearly five million people out of poverty every year. Benefits also extend to local economies. In a recent presen-

tation to the nation's governors, sixteen of whom offer earned-income tax credits through their own tax code supplementary to the federal EITC, Brookings Institution scholar Bruce Katz reported that over \$30 billion in federal aid is transferred each year to working families in every state.

In order to be effective, a poverty-reduction strategy must match work requirements and income-enhancement efforts with a new emphasis on asset accumulation. A back-door approach would be to help the poor decrease their debt load. Among the poorest families, debt payments consume 20 percent of household income, the highest ratio in America. Such a debt load is devastating to households that own no assets beyond income. As a partial antidote, community-based debt counseling should replace the high-interest “payday” loan brokers in American cities today, who charge exorbitant interest rates for loans to people who are known to be great credit risks.

A 1997 study revealed that households earning under \$20,000 saved twice as much with simple financial plans as those without them. One of the most effective vehicles for promoting this behavior is the Individual Development Account (IDA), which enables poor workers to save for homes, education, or business ventures. The state of Indiana oper-

ates an IDA program that contributes \$3 for every \$1 saved by its low-income residents. There are 1,500 such accounts in the state, including one for Angel Armstrong Rea, who found economic independence in large part thanks to the state's IDA program. Ms. Rea recently wrote in the *Indianapolis Star*,

Your wonderful programs have given my kids and me shelter, sparked an interest for college, taught me to budget, allowed for a down payment to my own home, helped my youngest to go to camp for the first time in their lives, and helped my husband and me start a business that allows me to work and go to school. I cannot express how much these things mean to me. I thank my Lord for all your help.

Although these macroeconomic proposals meet important needs, they sometimes have the effect of merely helping the poor become less poor. Only increased earning power and the promise of a career will reduce the income gap and move the poor out of poverty altogether. Thus, effective microeconomic strategies are needed that bridge the gap between entry-level employees and good jobs, and between employers and the skilled workforce they desire.

One path in this direction is something called sectoral initiatives, which help workers learn skills that will enable them to earn more money in a career with long-term prospects. This approach, featuring local employers in worker-training programs in their communities, is being tested in pilot projects across the country. Rather than training all job aspirants in a general or randomly selected field of interest, innovative job-training agencies are prepar-

ing would-be workers specifically for jobs in their communities' growing sectors. Employers, for their part, gain a better understanding of the unique characteristics of the entry-level work population and can calibrate their behavior to help these workers succeed. It is a case of enlightened self-interest.

Government's role does not end in simply stipulating new policies, however. Too often policymakers simply add their latest prescriptions on top of old ones, adding unnecessary cost and unintentionally creating confusion and obstructing effective service delivery. This is especially the case in employment and training, where the federal government has created over a hundred separate programs spread among multiple cabinet agencies and subject to even more congressional oversight bodies.

It is the challenge of state and local public administrators to pursue strategies that reduce duplication and leverage resources across these disparate government programs. If we are committed to a work-based solution to the poverty problem, we must build a new system that supports individual workers and their families and also the employers who hire them. The operative term here is *system*. Although community leaders today refer to their employment and training "system," what they really have is an overly fragmented mix of services that compete with each other, cost too much because of duplication, and generally confuse users and taxpayers alike.

Omaha, Nebraska, officials understand this strain and recently won approval from the Department of Health and Human Services (HHS) to experiment with a plan pulling together various federal programs into a single system of aid. The money currently is allocated in separate programs for transportation, housing, vocational education, food stamps, job training, and childcare.

In approving this request, HHS Assistant Secretary for Children and Families Wade Horn said that Omaha's goals dovetail with the administration's desire for service integration. "We need to get out of this fragmented system . . . with so many different funding streams, and instead turn the focus on the recipients." Such a focus would move from how many people get aid under various programs to how the aid can meet the overall needs of families.

Other states, including Wisconsin and Utah, ventured down the path of welfare-workforce integration several years ago. They reorganized cabinet agencies to consolidate the functions of welfare-to-work and job training. Former Wisconsin Works (W-2) welfare reform leader Jennifer Noyes recently noted that the merging of economic support and workforce development simply made sense. Given the dramatic declines in welfare caseloads and subsequent surpluses in welfare funding, Wisconsin directed funds toward the non-welfare working poor in activities that prevented them from having to go on welfare and that promoted job success. Today, with strenuous budget shortfalls, these states can't afford a return to redundant offerings.

### Paradoxical Mix

Even with more efficiencies created by cross-system integration, some wonder how we can sustain all the previously mentioned new work-support programs without creating a European-style welfare state. This is valid concern. Given the relative novelty of these programs, it is important for Congress to monitor closely the costs and benefits of combining programs rather than maintaining isolated categorical program silos. It is also imperative that government policies consistently promote personal responsibility and reward self-sufficiency.

Work-favoring welfare policies appear to be passing both

scrutiny tests. A new study conducted by researchers June O'Neill and Anne Hill reports that the poverty levels of single mothers fell from 41.9 percent in 1996 to 33.6 percent in 2001. The authors persuasively make the case that poverty "drops steadily" as former welfare recipients become integrated into the workforce. Like other workers, the longer they remain in the workforce, the more they will earn; and as they escape poverty, they earn their way past government support of all forms. (*Gaining Ground, Moving Up*, June O'Neill and M. Anne Hill; Manhattan Institute; March 2003.)

Nonetheless it is worth recalling the words of former Wisconsin governor Tommy Thompson, who often said, "You can't do welfare reform on the cheap." He imposed stricter requirements than any state in the nation, then and since; in Wisconsin, all cases are required to pursue some sort of employment and training activity in exchange for their benefits. Even as Thompson's government vastly increased per-capita spending, it saved more than enough money from welfare case reductions to cover the cost. During the past fifteen years, Wisconsin's caseload dropped from nearly 100,000 families to fewer than 10,000.

New York University professor Lawrence Mead explains the success of this paradoxical mix of increased demands and increased supports by employing Daniel Elazar's theory of state political culture. In his book *American Federalism* (1984), Elazar distinguishes three types of political cultures. The first kind is what he calls *moralistic*; these states are defined by their pursuit of the public interest. The second group is *individualistic*, those possessing an agenda largely shaped by interest groups. The third group is the *traditionalists*, which tend to preserve traditional values.

In a recently conducted a study of state welfare-to-work strategies using Elazar's grid, Professor Mead found that the moralistic states (such as Wisconsin, Michigan, and Oregon) yielded the best welfare-reform outcomes. These states, spurred by some sort of higher-order ethos, preferred problem-solving to partisanship and possessed a relatively higher-performing bureaucracy. They also imposed stricter work tests and extended more generous safety-net services.

This combination of compulsion and compassion has resulted in nationwide welfare reform successes that are difficult to comprehend. More than five million people left welfare over the past six years, a figure approximating the combined populations of Maine, New Mexico, Alaska, and Vermont. To sustain that success, state welfare systems must continue to help mainstream the poor by requiring work in exchange for welfare and supporting those same workers until they are able to trade poverty for self-sufficiency.

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# Welfare Reform Saves Lives

by Sylvia LeRoy &  
Todd Gabel

**W**ith the recent exception of British Columbia, it has been years since any Canadian province took the issue of welfare reform seriously. Does this indicate that the welfare dependency problem in Canada has been solved? Far from it. Today, 5.9 percent of Canadians are on welfare, higher than the record rates experienced in the US a decade ago.<sup>1</sup> The real tragedy is not in the numbers, however, but rather in the human suffering that welfare has inflicted upon the lives of our most disadvantaged citizens. In other words, welfare reform matters because it saves these citizens from lives trapped in dependency and poverty.

The evidence is overwhelming. When the US passed sweeping welfare reform legislation in 1996—the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)—critics feared that its strict work requirements, sanctions, and benefit time limits would throw society's most vulnerable off the welfare rolls and straight into poverty. Such a disaster never materialized.

Certainly, more Americans have left welfare over the past decade than at any other time in American history. There are now 9.1 million fewer Americans collecting welfare than in 1994—a drop of 64 percent (USHHS, 2003, p. II-5). More importantly, those leaving the

welfare rolls are doing so because they have found employment. The US General Accounting Office (GAO) reported in 1999 that between 61 and 87 percent of adults leaving welfare had found employment (GAO, 1999). Furthermore, state-reported data shows that the average monthly earnings of those employed increased by 49 percent between 1996 and 2001 (USHHS, 2003, p. IV-128).

The impact of welfare reform on single mothers, including high school dropouts and visible minorities, has been equally impressive. Remarkably, even though these women typically have less education and work experience than the general population, they have experienced both the highest welfare rate declines and employment gains (O'Neill and Hill, 2001). In addition, earnings of single mothers have also increased significantly, including those within the lowest income brackets. Between 1996 and 2000, average earned income for single mothers in the bottom quintile increased from \$1,740 to \$2,960. Earnings of women in the next quintile increased from an average of \$5,060 to \$11,140 (USHHS, 2003, p. IV-128).

These gains in employment and earnings have had a significant impact on

US poverty rates, as measured by the Census Bureau. Again, the change has been most pronounced among more vulnerable groups such as women and children. By 2000, the poverty rate for single mothers had dropped to the lowest level since the government started measuring poverty in 1959 (O'Neill and Hill, 2003). Panel data from the Survey of Income and Program Participation (SIPP) that is restricted to welfare leavers shows that poverty also declined among single mothers who left welfare after welfare reform, with the declines intensifying the longer a woman is off welfare.

Fears that this new involvement in work and work-related activities would have a negative impact on children were also unfounded. A study published in the journal *Science* in March 2003 found that while the effects of a mother's move from welfare to work were neither harmful nor beneficial for preschool age children, adolescents reported declines in psychological distress, including symptoms of anxiety. Because adolescents are sensitive to the pressures of poverty and economic hardship on their families, they seemed to thrive on the new self-esteem and hope expressed by their newly-working mothers. Not surprisingly, adolescent behavioral problems increased when their mothers stopped paid employment, likely because "Teenagers may express their feelings of disappointment or worry about finances as depression or anger when their mothers leave employment" (Chase-Lansdale, 2003).

Some have dismissed the successes of US welfare reform by claiming the reduction in caseloads was merely the

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result of a strong economy. However, this criticism has largely been refuted: research has found that economic growth could account for as little as 5 percent of caseload declines (New, 2002, p. 7-8). Most research findings agree with those of a 1999 report by President Clinton's Council of Economic Advisors, which determined that welfare reform was responsible for approximately a third of the caseload reductions after 1996 (Tanner, 2003, p. 8). The positive effects of welfare reform are even more pronounced when considering single mothers as a group. Analysis reveals that welfare reform is responsible for more than half of the decline in their welfare participation and more than 60 percent of their rise in employment (O'Neill and Hill, 2001, p. 21).

So what about Canada? Generally, the provinces have not embraced welfare reform to the same extent as most US states, though the reforms introduced in Alberta in 1993, Ontario in 1995, and BC in 2000 come close. Nevertheless, all provincial governments were forced to make at least modest changes, such as reducing benefits, tightening eligibility requirements, or developing new work incentives when welfare rolls peaked in the early 1990s.

To date, there has been limited research on the effects of these reforms (see Boessenkool, 1997; Schafer, Emes, and Clemens, 2001; Schafer and Clemens 2002a; Schafer and Clemens, 2002b). However, Canada's first-ever large-scale study of life after welfare, released by Statistics Canada this past spring, reported that 6 out of 10 Canadians who left welfare in the 1990s saw their family incomes improve. Five years after leaving welfare, average family earnings had increased by approximately 40 percent (Frenette and Picot, 2003). Not surprisingly, the rate of those leav-

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# The Media and Economic Freedom

by Peter Jaworski & Neil Seeman

**H**ow well do the Canadian media cover issues of economic freedom? That question rests at the heart of several of the essays in this edition of *Fraser Forum*. We ask this question not out of idle academic curiosity, but rather because there is strong reason to believe that the media's portrayal of economic freedom goes a long way toward influencing how much faith the public and policy makers invest in a variety of policies that advance economic freedom—from school choice to private markets in health care to patent protection.

There has long been evidence that the media have the ability to amplify questionable scientific and statistical claims, and to change the climate of public opinion (Huff, 1954). Misleading claims can also skew the public's demand for regulatory protection. It is reasonable, therefore, to assume that the media's portrayal of the significance of economic freedom more generally would stamp a large footprint onto the policy agenda.

As a case study of the importance that the Canadian media ascribe to the idea of economic freedom, we examined media coverage of the chief intellectual product on the subject: the book *Economic Freedom of the World* (EFW) (Gwartney and Lawson, 2003). We then

compared this to Canadian media coverage of the United Nations Human Development Index (HDI), which undervalues economic freedom by downgrading countries that enjoy above-average income levels. The HDI makes the arbitrary assumption that once a country has reached the global average level of GDP per capita, additional income above that level leads to inconsequential increases in human development.

It is significant that the Canadian media shower attention on the HDI, while experts dismiss it. From January 2000 to June of 2003, Proquest, a compendium of peer-reviewed journals from around the world, records just five scholarly citations to the HDI (the *Lancet* (twice), the *European Business Review*, *Environment*, and *Interdisciplinary Science Reviews*). By contrast, Newscan, a database of Canadian media, referred to the HDI 105 times during the same time frame. Infomart, another Canadian media data-base, recorded 314 mentions to the HDI.

Compare this to the coverage of EFW. According to Proquest data, from Janu-

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ing welfare was highest in Alberta and Ontario, with the highest post-welfare incomes to be found in Ontario.

New data also mirror US findings of sharp improvements in the financial situations of single mothers and children. Statistics Canada attributed the increase in average market incomes of single mothers—46 percent between 1996 and 2001, which amounts to an average annual growth rate of 7.9 percent—to higher labour force participation (Statistics Canada, 2003). The percentage of children living in families falling below the low-income cutoff is at its lowest level since 1980, the earliest year for which data is available.<sup>2</sup>

Despite these encouraging results, Canada's 5.9 percent welfare rate means that 1.8 million Canadians are still dependent on welfare. We should want more for them. True, some of those remaining on welfare may be among the most difficult to employ—those with little education or work experience, with substance abuse problems, those who have been cycling in and out of the system for years. For these people, we should refocus existing resources on more targeted programs.

Even better, we should turn our attention and charitable dollars to the thousands of non-profit agencies, churches, and other charitable organizations who are best able to provide personalized aid and assistance. More important than the

tax dollars that these reforms would save are the human lives that would be lifted out of poverty and despair.

## Notes

<sup>1</sup> Only parents with children are included in the calculation of US welfare rates, while Canadian welfare rates also include disabled and single employable adults.

<sup>2</sup> Statistics Canada's low-income cutoff (LICO) should not be confused with poverty rates. For further discussion, see Sarlo (2001).

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## Families Leaving Welfare: How Well Are They Doing?

More than 1.4 million people left California's welfare rolls during the five years between August 1996 and September 2001. In these first years following welfare reform, one fear was that some families would leave welfare without having other sources of income. Such a departure from the rolls, it was speculated, could be caused by many factors: rigorous participation requirements, the specter of time limits, confusion about program rules (especially among immigrants), or merely the publicity about "the end of welfare as we know it." Thus, the same dramatic caseload declines seen by some as heralding the triumph of welfare reform were seen by others as an alarm bell regarding the well-being of former welfare recipients.

To help families successfully leave CalWORKs (California's welfare program) and to prevent them from falling through the social safety net, policymakers need more information about the well-being of these families and how their circumstances change over time. In *What Happens to Families When They Leave Welfare?* Thomas MaCurdy, Grecia Marrufo, and Margaret O'Brien-Strain provide significant new information about those who leave the welfare rolls. Their report addresses five basic questions:

- How many families who leave CalWORKs remain off the program for an extended time?
- What are their circumstances, and do these circumstances improve over time?
- What public assistance and services do those who leave welfare rely on?
- What problems and barriers do these leavers encounter while off CalWORKs?
- What factors determine which families succeed in staying off welfare?

The answers suggest that certain characteristics of welfare leavers signal potential problems that targeted policies might forestall.

### Key Findings

The report draws on extensive telephone surveys of welfare leavers conducted in six Bay Area counties in the late 1990s. The surveys were conducted by The SPHERE Institute in cooperation with the six counties and with support from the U.S. Department of Health and Human Services and the William and Flora Hewlett Foundation.

Two waves of surveys were conducted, capturing the circumstances of welfare leavers 5–10 months after exit (depending on the county) and 11–16 months after exit. The report presents snapshots of how well one-parent and two-parent families who have not returned to CalWORKs are doing during each of these periods. The snapshots describe the families' economic security, use of public assistance, and difficulties encountered in maintaining employment and coping with adverse conditions. These are some of the findings:

*Approximately one year after leaving CalWORKs, one-parent families had an average monthly income of about \$2,400 and two-parent families had a monthly income of about \$2,300. This is sufficient income to bring about 70 percent of average one-parent households and about 55 percent of average two-parent households above the poverty line. However, 14 percent of two-parent households remained very poor, with income below 70 percent of the poverty threshold.*

*Around 90 percent of families had at least one adult in the workforce. In one-parent families, workforce participation (almost always by mothers) was quite high, around 77 percent. In two-parent families, mothers were somewhat less likely to work. However, for both types of families, the surveys captured a significantly higher share of households with earnings than could be found in administrative data used by the welfare system to track employment and earnings.*

*Between the two survey waves, income gains averaged only \$60 to \$70 per month, and half of the households saw no income growth.*

*About 30 percent of one-parent families and over 40 percent of two-parent families who were eligible for Food Stamps were not receiving them.*

*Around 50 percent of families reported Medi-Cal coverage about one year after exit.* However, administrative data show higher rates of Medi-Cal enrollment, so some families may not have been aware that they were still covered by Medi-Cal.

*Among two-parent families, almost half lived in crowded housing, one-third faced an excessive rent burden, and one-quarter lived in substandard housing.* Housing conditions improved over time for one-parent households, but crowding and substandard housing grew worse for two-parent families.

*Although child care subsidies are available to working parents who leave welfare, more than one-quarter of one-parent families and one-third of two-parent families did not know about these subsidies.* Yet, one-quarter of the respondents said that getting child care was a significant barrier to full-time employment.

*Only about 10 percent of families reported child risk behaviors (e.g., expulsion from school, trouble with police, use of drugs, pregnancy), and such problems did not increase over time.* The percentage of respondents reporting substance abuse problems in the household fell among leavers the longer they were off welfare.

In addition to comparing circumstances over time, the researchers identified factors that might predict a return to welfare and other poor outcomes for families. They found that larger families, families with younger children, and black families (more than white families) were more likely to return to welfare. Two-parent Hispanic families were more likely than other two-parent families to remain off welfare. Inexplicably, a large proportion of families who remained off welfare are quite poor and face the same kinds of problems and barriers that families who returned to welfare face.

Factors that had little effect on returning to welfare sometimes predicted other problems. For example, among one-parent families, the results indicated that Spanish-speaking families, larger families, and families with no earnings at exit were more likely to encounter problems such as lack of earnings, poverty, crowded housing, problems with child care, and lack of health coverage within a year after exit.

## Policy Implications

The study's findings suggest the need for policies aimed at providing families with information about the availability of post-CalWORKs benefits. For example, 25 percent of one-parent families failed to claim more than \$300 per month in Food Stamps alone. Similarly, families were often unaware of the Earned Income Tax Credit (EITC) and child care subsidies. Since it may be difficult to contact recipients after they leave welfare, they should be given such information while they are still on aid. Similarly, this type of information could also be provided to CalWORKs applicants who are denied assistance but who could be eligible for other types of assistance.

Knowing which recipient characteristics are most likely to predict problems could be useful in targeting supplemental assistance to certain families while they are on CalWORKs and immediately after exit. For example, services designed to help recipients retain their jobs could be targeted more intensively toward leavers with these characteristics.

Awareness of a discrepancy between administrative data and survey data that measure leavers' earnings may also be useful. Policymakers relying on information on earnings from unemployment insurance files—the most common source of this information—should recognize that these data might significantly understate earnings.

Finally, the question of why many families in poverty choose not to return to welfare warrants further attention. About one-third of leavers who had been off welfare for around a year had household incomes below the federal poverty level, and 11 percent had monthly incomes of less than 70 percent of the poverty level. Poor long-term leavers face problems and barriers similar to those families who return to cash assistance. Those who returned were only marginally more likely to indicate that they had been experiencing domestic violence, unstable child care, substance abuse, and depression; and, somewhat surprising, fewer reported that child care was a barrier to employment. After accounting for work and earnings experience, no particular condition appears as a prominent factor or trigger event for predicting who will reenter CalWORKs.

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*This research brief summarizes a report by Thomas MaCurdy, Grecia Marrufo, and Margaret O'Brien-Strain, What Happens to Families When They Leave Welfare? (2003, 118 pp., \$12.00, ISBN 1-58213-076-0). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet ([www.ppic.org](http://www.ppic.org)). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

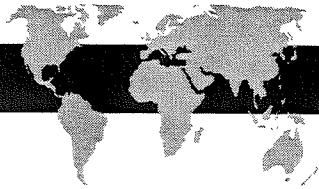
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## BRIEF ANALYSIS

No. 472

For immediate release:

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# Welfare Reform: Finishing the Job

by Joe Barnett and Todd Gabel

Recently, for the fifth time, Congress temporarily extended the 1996 welfare reform law that established Temporary Assistance to Needy Families (TANF), the federal program that provides cash assistance to poor families. The Bush Administration and the House of Representatives have sought to improve TANF by adopting stronger work requirements, while simultaneously increasing child care funding by \$2 billion. Legislation to reauthorize the program has been held up by the Senate, which continues to resist the administration's push for stronger work requirements.

This is unfortunate. Studies have found that strictly enforced work requirements were the most important reason for TANF caseload reductions over the past decade. A stronger emphasis on employment would further reduce the attractiveness of welfare and strengthen recipients' motivation to find a job and keep it.

### Successes So Far.

With the goal of reducing welfare dependency, TANF introduced a number of significant reforms, including time limits on the receipt of benefits, work requirements and an array of financial incentives. The results have been positive:

- From 1996 to 2002, the number of families on welfare fell from 4.5 million to 2.1 million, and caseloads continue to remain at low levels despite the recent economic slowdown.
- Between 63 and 87 percent of those leaving welfare have found employment, with the average household income of welfare leavers reaching about 125 percent of the poverty level.
- The reduction in welfare rolls has not contributed to an increase in poverty; today, just 9.6 percent of

families live in poverty — one of the lowest levels on record.

**Need: Fewer Exemptions from Work.** Due to declining welfare caseloads, states were given credits that lowered the work participation requirements for those remaining on the rolls. In fact, Michael Tanner of the Cato Institute says that in 31 states caseload reduction credits decreased the actual number of recipients required to work to zero. Further, many states exempt a large portion of adult welfare recipients, including: parents of young children (47 states); individuals who lack adequate transportation or face

other barriers to work (28 states); and parents who cannot find adequate child care (28 states).

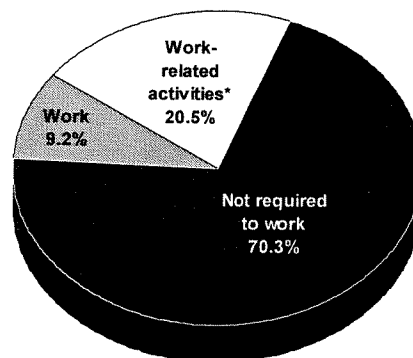
Lastly, 14 states have waivers from previous reform initiatives that override TANF's current work requirements. When all the credits, exemptions and waivers are tallied, less than 30 percent of adult welfare recipients across the country actually participate in work activities.

And even those recipients aren't necessarily working. Research strongly suggests that the most successful form of work activity for welfare recipients is work itself, yet most states allow job search, vocational training, and learning

job readiness skills to qualify as work [see Figure I]. In fact, only 9.2 percent of all adult welfare recipients are actually employed, representing less than 200,000 jobs.

**Need: Tougher Work Requirements.** The bill passed by the House last year would raise the required participation rate among adult recipients to 70 percent, up from the current level of 50 percent. Moreover, the House has proposed increasing the 30-hour work week to 40 hours, of which at least 24 must be spent in employment. The House bill also requires states to strengthen sanctions, which reduce or stop recipients' welfare payments for noncompliance with work requirements.

FIGURE I  
Work Participation of Welfare Recipients  
(U.S. Average, 2000)



\* Includes job search, vocational training, and learning job readiness skills.

Source: Michael Tanner, *The Poverty of Welfare* (Washington, D.C.: Cato Institute, 2003), pp. 75-76.

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Tougher work requirements are needed to increase work participation rates across the country. Wisconsin has demonstrated that a strong focus on employment can bring about participation rates exceeding 70 percent. However, other states have not been as focused on work. For example, a meager 6.3 percent of welfare recipients in Maryland are involved in work-related activities. [See Figure II.] Many other states also have significant room for improvement.

**Need: Focus on Private-Sector Employment.** While stronger work requirements are important, policymakers should also promote unsubsidized private sector employment. Research has shown that community service or government subsidized job programs tend to create temporary make-work — such as such as picking up garbage, raking leaves and painting government buildings — that do not prepare recipients for long-term self-sufficiency. By contrast, workers in the private sector develop marketable job skills that help people stay off of welfare, in part because they are trained in occupations valued by employers.

Furthermore, government does not actually “create” jobs. Publicly funded work comes at the direct expense of private sector opportunities because they are funded either through tax dollars or deficit spending. When taxpayers have less money to spend or invest in the private sector, businesses respond by producing fewer goods and either stop hiring or lay off workers. Not only do job creation programs directly reduce the growth of private sector jobs, government subsidized workers actually take jobs away from current workers. Research shows that even the most effectively run job creation program displaces about one existing worker for every four jobs it creates.

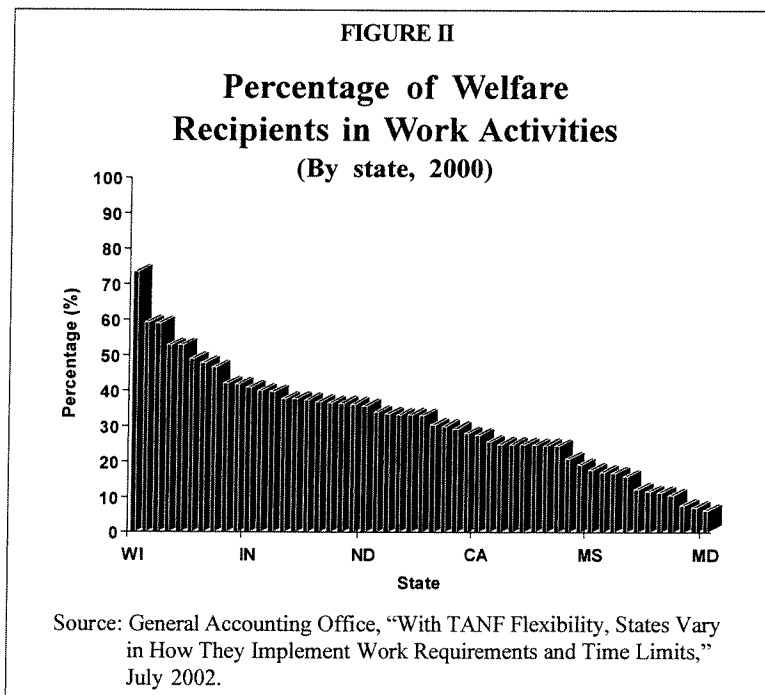
**Opportunities.** Although some barriers still exist, remaining welfare recipients can find work. Despite the great reductions in caseloads, research suggests that the proportion of harder-to-serve, long-term recipients — young single mothers, minorities and those without a high school education — has stayed about the same. The Urban Institute found that between 1997 and 1999, a period of significant caseload reduction, the percentage of long-term welfare cases remained even — at about 47 percent. In fact, an NCPA study found that those most at risk for long-term dependency have left the welfare rolls at higher rates than other groups.

Welfare leavers also have many job opportunities. William Conerly of the American Institute for Full Employment says an unemployed person doesn’t need a net new job, just any open job. People most commonly find work when jobs open up as a result of normal employee turnover. Another common source of employment is “churn.” That is, jobs are gained when some firms expand, while others are lost when some firms close down. Thus, in a market economy, a 2 percent net new job growth likely reflects a 12 percent gross increase in new jobs

offset by a 10 percent reduction in existing jobs.

**Conclusion.** Welfare reform reauthorization must strengthen work requirements by reducing exemptions and stressing the importance of private sector employment. It is time for lawmakers to build on past success and empower welfare recipients to lead happier, more productive lives.

*Joe Barnett is a policy analyst and director of publications, and Todd Gabel is an intern, at the National Center for Policy Analysis.*



*Note: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any legislation.*

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No. 1661

June 12, 2003

## **SHARP REDUCTION IN BLACK CHILD POVERTY DUE TO WELFARE REFORM**

*MELISSA G. PARDUE*

Over six years ago, Congress overhauled much of the nation's welfare system. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996<sup>1</sup> replaced the failed social program called Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF). The reform legislation had three primary goals: (1) reduce welfare dependence and increase employment, (2) reduce child poverty, and (3) reduce illegitimacy and strengthen marriage.

At the time of the law's enactment, many liberal groups made dire predictions about the terrible effect these reforms would have on America's children. In particular, the Children's Defense Fund claimed that welfare reform would cast millions more children into poverty and hunger.<sup>2</sup>

These predictions were wrong, and welfare reform in fact produced the opposite results.<sup>3</sup> Many groups, including academic institutions and public policy organizations, have published a wide variety

of research showing the reform's undeniable success.<sup>4</sup> The documentation of this success has already begun to play a crucial role in the TANF reauthorization process scheduled in Congress for the coming months.

### **REDUCED BLACK CHILD POVERTY**

In the almost seven years since the welfare reform law was enacted, economic conditions have improved dramatically for America's poorest families. Welfare rolls have plummeted, employment of single mothers has increased dramatically, and child hunger has

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1. Public Law 104-193.
2. Children's Defense Fund, "How the Welfare Bill Profoundly Harms Children," July 31, 1996.
3. See Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Background* No. 1620, February 6, 2003.
4. See Rebecca M. Blank and Robert F. Schoeni, "Changes in the Distribution of Children's Family Income over the 1990's," University of Michigan, January 2003, and June E. O'Neill and M. Anne Hill, "Gaining Ground? Measuring the Impact of Welfare Reform on Welfare and Work," Manhattan Institute *Civic Report* No. 17, July 2001, pp. 8-9.

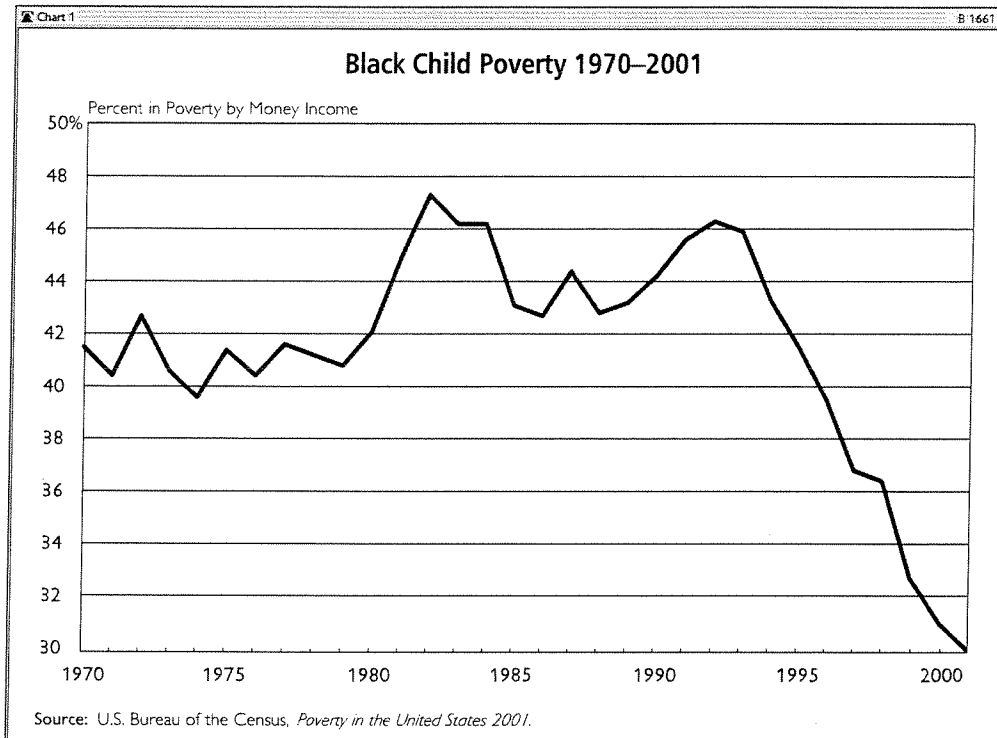
declined substantially. Most striking, however, has been the effect of welfare reform on child poverty, particularly among black children.

However, a report recently released by the Children's Defense Fund shows that the number of black children under age 18 living in extreme poverty increased to nearly one million in 2001.<sup>5</sup> Extreme poverty is defined as having an after-tax income of less than half of the federally defined poverty line. For a family of three, the poverty line was \$14,128 in 2001, which would make the extreme poverty line \$7,064 for that year. These findings show an increase of roughly 145,000 black children in the extreme poverty category since the enactment of welfare reform.

Although not incorrect, these findings can mislead readers about the success of welfare reform by focusing on a narrow slice of the entire child poverty population that has otherwise significantly improved under the reformed welfare system. While the number of black children living in extreme poverty is certainly a cause for concern, the overall level of child poverty, particularly among black children, has made tremendous progress:

- For the 25 years prior to welfare reform, the percentage of black children living in poverty remained virtually unchanged.
- Since welfare reform, the poverty rate among black children has dropped by one-fourth, falling from 41.5 percent in 1995 to 30.0 percent in 2001.

- The black child poverty rate is at its lowest point in U.S. history.
- Since welfare reform, over 1.2 million black children have been lifted out of poverty.
- Since welfare reform, six black children have been made better off and lifted out of poverty for every black child whose economic condition has worsened.



As Chart 1 shows, for the 25-year period prior to welfare reform, there was little change in black child poverty. Black child poverty was actually higher in 1995 (41.5 percent) than it was in 1971 (40.4 percent).

With the enactment of welfare reform in 1996, however, black child poverty plummeted at an unprecedented rate, falling by more than a quarter to 30 percent in 2001. Over the six-year period after welfare reform, 1.2 million black children were lifted out of poverty. Despite the economic recession in 2001, the poverty rate for black children was at the lowest point in national history.<sup>6</sup>

5. See Children's Defense Fund, "Analysis Background: Number of Black Children in Extreme Poverty Hits Record High," April 2003, at [www.childrensdefense.org/pdf/extreme\\_poverty.pdf](http://www.childrensdefense.org/pdf/extreme_poverty.pdf).

The Children's Defense Fund largely ignores this significant decline in black child poverty. They see the glass as 1/7 empty rather than 6/7 full. In fact, these findings actually emphasize the importance of targeting welfare reform at those families in extreme poverty, most of whom perform little or no work.

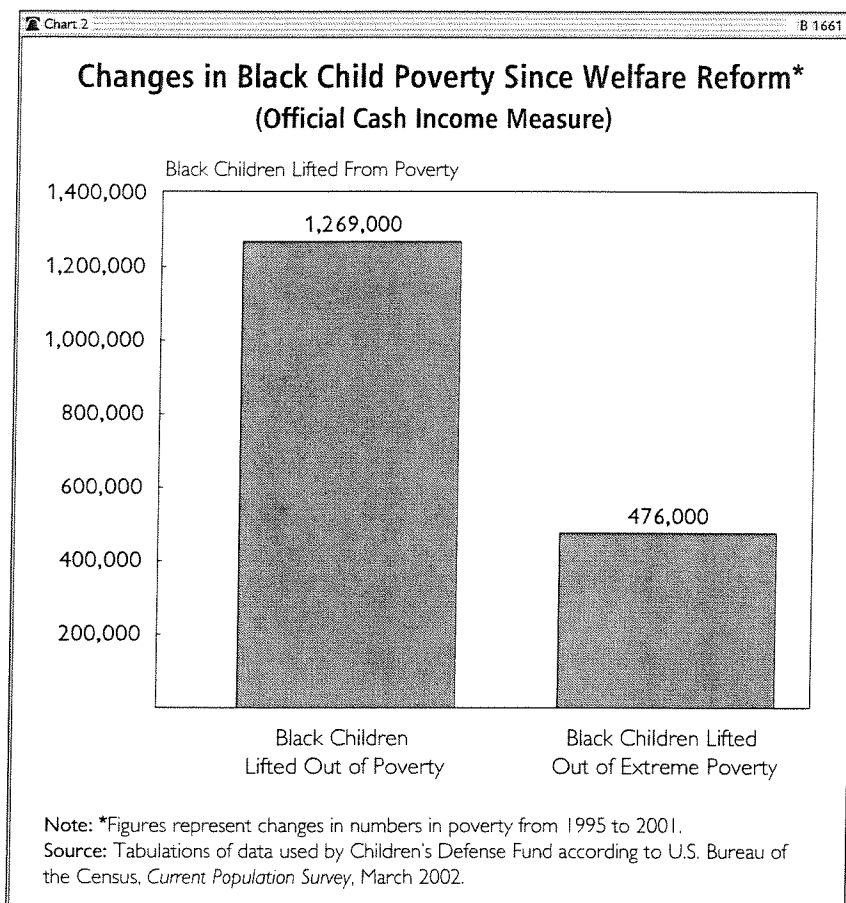
## BLACK CHILDREN IN EXTREME POVERTY

The status of black children in extreme poverty varies depending on the measure of income used in analysis. Social scientists can use varying definitions of "income" in evaluating the effects of welfare reform on poverty. Two common definitions are the official cash income measure and the near-cash income measure.<sup>7</sup>

The official cash income measure—often called "money income"—is the most common measure used by the Census Bureau and is used to determine the official poverty rates in America. It includes most cash income received by the family but excludes a wide range of welfare aid.

The near-cash income measure—often known as an "expanded" definition of income—can include the value of a variety of welfare aid such as food stamps, the earned income tax credit (EITC), housing benefits, and school lunch subsidies. It also deducts Social Security taxes from income. Therefore, the count of persons living in poverty will vary depending on what economic resources are included as part of the family's income.

As Chart 2 shows, under the official definition of cash income, the number of black children living in extreme poverty has actually decreased since 1995, prior to welfare reform. Nearly half a million black



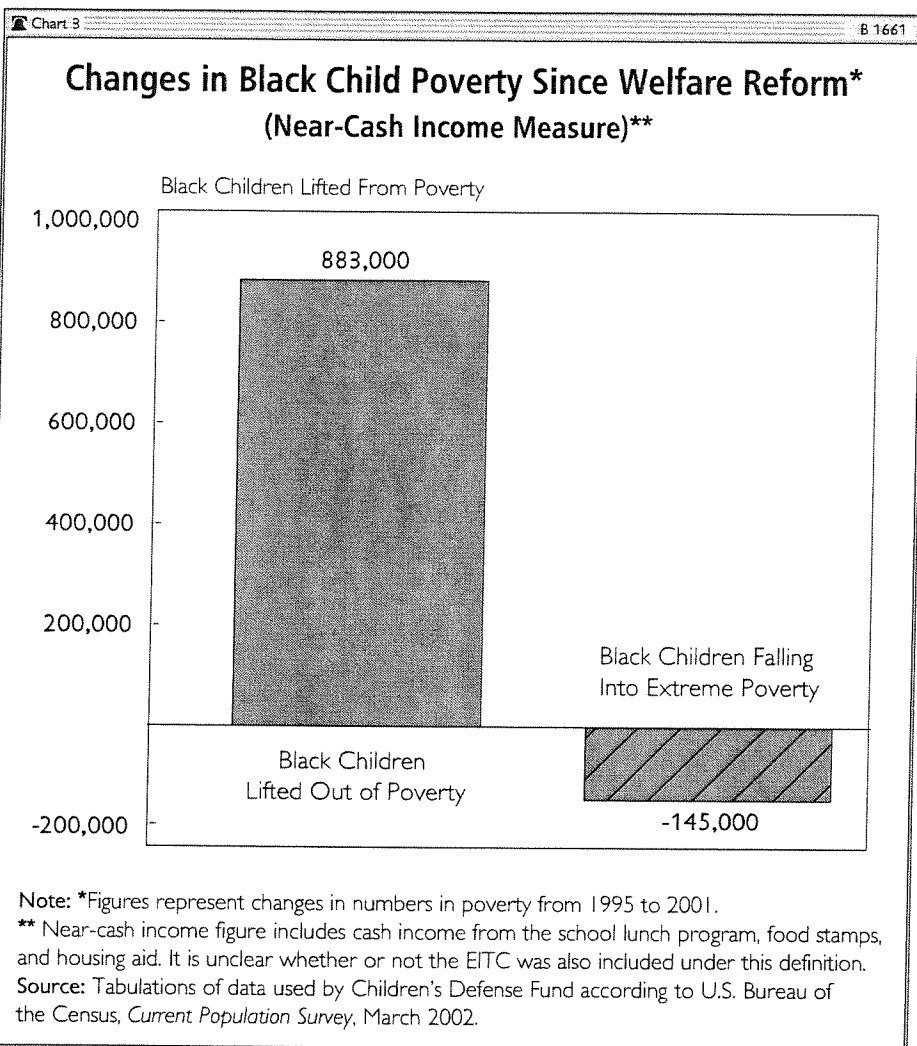
children were lifted out of extreme poverty by 2001.

Only when using an "expanded" definition of cash income—the near-cash income measure—does the number of black children living in extreme poverty increase. As Chart 3 presents, a near-cash income measure shows an increase of 145,000 in the number of black children in extreme poverty since 1995. Although this is correct, the Children's Defense Fund used this definition of income with a great deal of ingenuity in order to find negative news among the overall positive results of the past six years.

Table 1 further highlights the significant differences between the two definitions of "income."

6. All data from U.S. Bureau of the Census, *Poverty in the United States 2001: Current Population Reports Series P60-219* (Washington, D.C.: U.S. Government Printing Office, 2001), p. 21.

7. For further details on the income definitions available, see U.S. Bureau of the Census, *Money Income in the United States, 1999*, Appendix A.



**Table 1** B 1661

### Changes in Black Child Poverty (Numbers in Thousands)

Official Cash Income Measure	1995	2001	Change 1995-2001
Black Children in Poverty	4,761	3,492	-1,269
Black Children in Extreme Poverty	2,342	1,866	-476

Near-Cash Income Measure	1995	2001	Change 1995-2001
Black Children in Poverty	3,658	2,775	-883
Black Children in Extreme Poverty	821	966	145

**Source:** Tabulations of data used by Children's Defense Fund according to U.S. Bureau of the Census, *Current Population Survey*, March 2002.



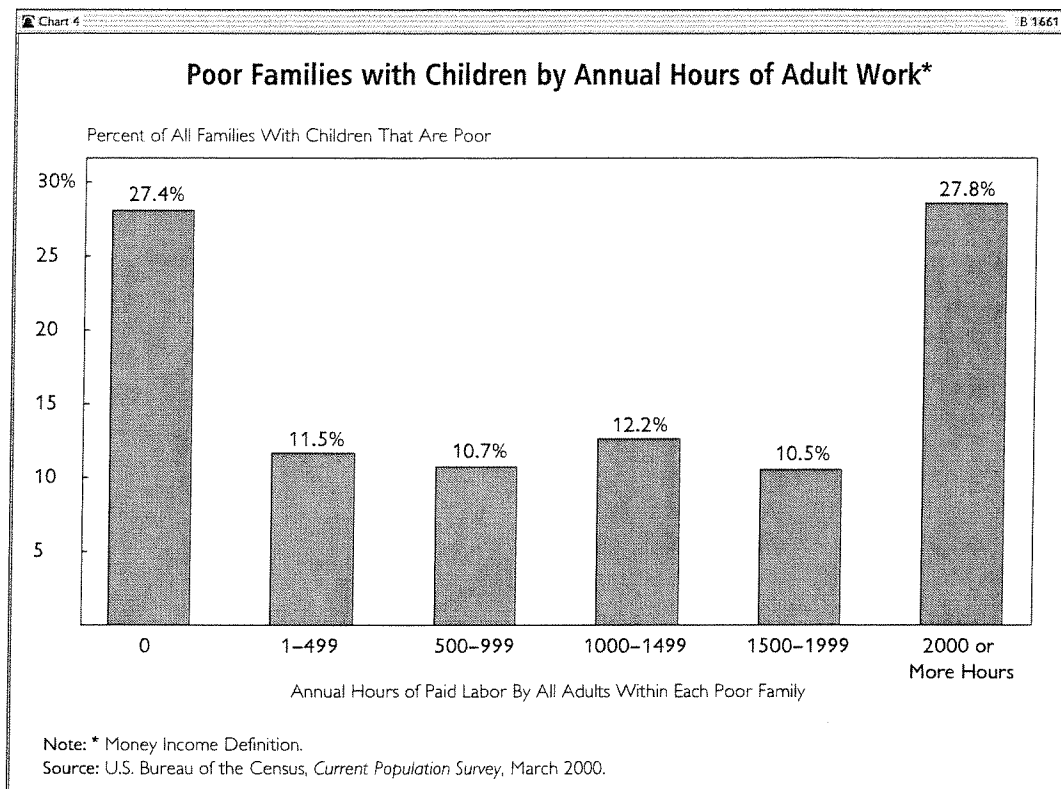
## WORK LEVELS AMONG AMERICA'S POOREST FAMILIES

As the data show, the overwhelming majority of black families took advantage of the opportunity presented by welfare reform. However, a small percentage of poor black families with children did not respond positively to welfare reform. This occurred because among this group, relatively few parents in these families are employed full- or even half-time. This extreme poverty group is perhaps best viewed as the population that welfare reform has not yet reached.

The essence of welfare reform, and its subsequent success, is accountability. When Congress replaced the failed AFDC program with TANF, national "work requirements" were imposed for the first time, mandating that recipients engage in constructive activities that lead to self-sufficiency in exchange for benefits. Such activities include community service work, training, and a supervised job search.

Despite the tremendous success of the overall reform, many of the work-related aspects of welfare reform remain incomplete. Nearly half of the 2 million adults receiving TANF—about 60 percent of the able-bodied caseload—are still idle on the work rolls, collecting welfare without engaging in work or other constructive activities. Low levels of work

participation are especially evident among black families with children living in extreme levels of poverty.



As Chart 4 shows, nearly three-fourths of poor families with children did not engage in full-time/full-year employment, which is defined as one adult working 40 hours per week for 50 weeks, or 2,000 hours of work per year. Low work levels by parents are the major cause of extreme child poverty.

While some poor families with children are "working families," the average levels of employment are actually quite low. Roughly one-quarter of poor families with children had no adult employed at any time during that year. Another one-quarter had an adult employed for less than 1,000 hours during the year, and another quarter had less than 2,000 hours. Overall, nearly half of all poor families with children have less than 1,000 hours—which is considered part-time—of paid employment throughout the year.<sup>8</sup>

8. U.S. Bureau of the Census, *Current Population Survey*, March 2000. See also Robert Rector and Rea Hederman, Jr., "The Role of Parental Work in Child Poverty," Heritage Foundation Center for Data Analysis Report No. 03-01, January 27, 2003.

In particular, the work levels of those families in the extreme poverty category tell a significantly more dismal story. Black families with children in extreme poverty, on average, have only 405 hours of work per year, and 60 percent of these families performed no work during the year.<sup>9</sup>

### NEXT STEPS FOR CONGRESS

The major reason that families remain in poverty despite the overwhelming success of welfare reform is because they participate in very little work. TANF has been very successful in increasing employment levels among many of its recipients. Therefore, the TANF program should be strengthened, not weakened.

Currently, nearly 60 percent of TANF recipients remain idle on the rolls. As part of the reauthorization process, Congress should increase the share of TANF recipients who are required to participate in such constructive activities as employment, job search, community service, or training. Policies that challenge these families to engage in employment or prepare for work will dramatically reduce the proportion of black families living in extreme poverty.

Many groups that strongly opposed the 1996 welfare reform, such as the Children's Defense Fund, are once again seeking to criticize and undermine its success. The unfortunate fact that some children remain in poverty, especially extreme levels of poverty, is no reason to turn back the clock on welfare reform.

It was almost inevitable that a certain proportion of the population would not initially respond to the reform. In response, these vulnerable groups should be a major focus of the refinement and reauthorization process. Policymakers should renew the challenge of welfare reform rather than restore the failed system of permissive entitlements and one-way handouts. Reauthorization efforts in Congress should focus on families still living in extreme poverty and seek ways to engage these vulnerable groups in employment and self-sufficient lifestyles.

### CONCLUSION

The successful track record of welfare reform in reducing child poverty is stunning. For a quarter-century prior to reform, black child poverty and poverty among single mothers remained virtually constant. Six years after reform, poverty among both groups dropped rapidly, reaching the lowest levels in U.S. history. In all recessions since the beginning of the War on Poverty in the mid-1960s, child poverty has increased sharply; but in the 2001 recession, child poverty did not rise at all.

Black children are perhaps the ones most enjoying the success of welfare reform, with 1.2 million black children released from the grip of poverty since 1996. While many black children still live in poverty, hundreds of thousands are better off than they were six years ago. In fact, for every black child whose economic condition has worsened in the past six years, six black children have risen out of poverty.

This overwhelming success, however, does not mean that the process of welfare reform is complete. The number of children—particularly black children—in poverty can be reduced further only by building on the success of the past six years, not by backpedaling to a culture of idleness and one-way handouts. The old welfare culture of permissive entitlements must be replaced by one of reciprocal obligations.

Policies that consistently ignore the current low levels of work among America's poorest families will not succeed in further reducing or eliminating poverty. Congress must strengthen work requirements in the reauthorization of welfare reform by challenging and engaging America's most vulnerable families still suffering from poverty so that they can realize their full potential.

—Melissa G. Pardue is Harry and Jeanette Weinberg Fellow in Social Welfare Policy at The Heritage Foundation.

9. U.S. Bureau of the Census, *Current Population Survey*, March 2002.